

Ricardo Noronha

Neoliberalism and the Historians

This article analyses ‘Neoliberalism’ from a historical perspective, as a transnational political movement with a strong epistemic bent, engaged in reconfiguring state institutions and building a competitive market order. Drawing on methodological insights from Intellectual History and Political Economy, it focuses on the epistemic engagement of early Neoliberal thinkers in the field of historiography. By examining the writings of prominent intellectuals who participated in the Mont Pèlerin Society, such as Friedrich Hayek, Karl Popper, T.S. Ashton, Walter Eucken, Ludwig von Mises and Milton Friedman, the article assesses the role of historical interpretation in Neoliberal discourse, highlighting its connection with economic theory.

Keywords: Neoliberalism, historiography, political economy.

O Neoliberalismo e os Historiadores

Este artigo analisa o ‘Neoliberalismo’ a partir de uma perspetiva histórica, enquanto um movimento político transnacional com uma forte inclinação epistémica, apostado em reconfigurar o Estado e construir uma ordem de mercado competitiva. Recorrendo a contributos metodológicos da História Intelectual e da Economia Política, o artigo debruça-se especificamente sobre as reflexões historiográficas levadas a cabo nos primórdios do Neoliberalismo por alguns dos seus mais destacados pensadores. Ao examinar os escritos de vários intelectuais que integraram a Sociedade do Mont Pèlerin – Friedrich Hayek, Karl Popper, T.S. Ashton, Walter Eucken, Ludwig von Mises e Milton Friedman – o artigo avalia o papel da interpretação histórica no discurso Neoliberal, destacando a sua conexão com o pensamento económico.

Palavras-chave: Neoliberalismo, historiografia, economia política.

Neoliberalism and the Historians

Ricardo Noronha*

Introduction

As Alfredo Saad-Filho and Deborah Johnston have pointed out, the last quarter of the twentieth century has seen Neoliberalism ‘become so widespread and influential, and so deeply intermingled with critically important aspects of life’ as to make it ‘difficult to assess its nature and historical importance’.¹ The very meaning of the term tends to fluctuate across different fields, being alternatively employed to designate an epoch (‘the age of Neoliberalism’), an intellectual project (comprising ‘Ordoliberalism’, the ‘Austrian School of Economics’, the ‘Chicago School of Economics’ and the ‘Virginia School of Political Economy’), and a paradigm of public policy (based on privatization, deregulation and supply-side economics). For the specific purpose of this article, ‘Neoliberalism’ is to be understood as a transnational political movement with a strong epistemic bent, engaged in reconfiguring state institutions and building a competitive market order. But rather than circumvent the polysemic nature of the concept, perhaps the most productive approach for an historian is to take into account the different levels of reality it evokes. In other words, if we wish to interpret ‘Neoliberalism’ as a historical phenomenon, we need to untangle the interpenetrating layers of discourse developed by its multiple protago-

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¹ Alfredo Saad-Filho and Deborah Johnston, *Neoliberalism. A critical reader* (London: Pluto Press, 2005), 1.

nists – ranging from businessmen and journalists to politicians and academics – and elaborate a rigorous mapping of the ideas and theoretical debates that have shaped it. This, in turn, will allow us to understand how those ideas have contributed to shape the political economy of the late twentieth century.

In that regard, the approach developed by Michel Foucault, in a course delivered at the Collège de France, in 1978-1979, offers some valuable insights.² Through an analysis of the German tradition of *Ordo-liberalismus* (also known as the ‘Freiburg School’) and of the ‘Chicago School of Economics’, Foucault highlighted the discursive dimension of ‘Neoliberalism’, defining it as a comprehensive set of theories aimed at reshaping the institutional and legal framework in order to build a competitive market order.³ A similar approach has been taken in a collective volume dedicated to the Mont Pèlerin Society (MPS), a key institution within the history of Neoliberalism. In its conclusion, Philip Mirowski emphasized the need ‘to explore the numerous and sometimes confusing ways in which neoliberal ideas have been historically related to each other, to social classes and to political and economic regimes’.⁴ Both Foucault and Mirowski called attention to the differences between twentieth-century ‘Neoliberalism’ – a term coined in Paris in 1938, during the Colloque Walter Lippmann – and the classical Liberal tradition of the eighteenth and nineteenth centuries, particularly in terms of the role of the state, the notion of *laissez-faire* and the nature of markets. The problematic nature of this genealogy has also come under the attention of Daniel Stedman Jones, who analysed the efforts undertaken by neoliberal intellectuals to reclaim the heritage of ‘Anglo-Scottish Enlightenment Liberalism’, so as to link up their own agenda to a ‘robust historical tradition of economic liberty’.⁵ Indeed,

2 Michel Foucault, *The birth of Biopolitics. Lectures at the Collège de France 1978-78* (Basingstoke: Palgrave MacMillan, 2009).

3 Thomas Lemke, ‘«The birth of bio-politics»: Michel Foucault’s lecture at the Collège de France on neo-liberal governmentality’, *Economy and Society* 30, n.º 2 (2001): 190–207.

4 Philip Mirowski and Dieter Plehwe, ed., *The road from Mont Pèlerin. The making of the Neoliberal Thought Collective* (Harvard: Harvard University Press, 2009), 417–21.

5 Daniel Stedman Jones, *Masters of the Universe. Hayek, Friedman, and the Birth of Neoliberal Politics* (Princeton: Princeton University Press, 2012), 100–01.

as both Mirowski and Jones have demonstrated, the term ‘Neoliberalism’ was commonly used by most members of the Mont Pèlerin Society throughout the 1950s, signalling a shared commitment to overcome the shortcomings of Classical Liberalism. It was only at a later moment that Friedman, Hayek and others chose to emphasize the continuity between their own views and those of classical liberal authors, such as David Hume, Adam Smith or John Stuart Mill.

A twofold problem arises from this literature: 1) how did prominent Neoliberal intellectuals position themselves regarding the legacy of classical Liberalism? 2) what kind of specific challenges did they face in their own time that justified the coining of the term ‘Neoliberalism’ to describe their common endeavours? Combining Intellectual History and Political Economy, this article seeks to understand how early members of the Mont Pèlerin Society dealt with the problem of historical interpretation. That was the main theme of the Society’s annual meeting in 1951, which took place at Beauvallon (France). The book that resulted from the meeting, *Capitalism and the Historians*, dealt primarily with historiographical debates, namely those concerning the standard of living during the English Industrial Revolution. But the book’s preface, written by its editor, Friedrich Hayek, revealed a much broader intellectual ambition. Indeed, rather than simply repeating age-old assertions concerning the virtues of *laissez-faire* economics, Neoliberal intellectuals established a critical dialogue with classical Liberalism, selecting those ideas that best suited their own political agenda. Along the way, as we shall see, they developed a sharp critique of historical narratives that called for the growth of state intervention and questioned the superiority of the competitive market over economic planning.

The fact that key topics in historiographical theory and methodology – namely aspects such as causality, agency and structure – captured the attention of Neoliberal intellectuals reveals the political importance they attributed to the handling of the past, but also the epistemic foundations upon which they sought to ground their own ideas. The following pages explore the writings of Karl Popper, Fried-

rich Hayek, T.S. Ashton, Walter Eucken, Ludwig von Mises and Milton Friedman on the subject of historical interpretation, offering some important insights concerning the meaning of the prefix ‘Neo’ in ‘Neoliberalism’. By going through some of their major works, the article argues that the relation between historiography and economic theory lay at the core of the Neoliberal project.

I. A History of Historicism

Austrian by birth and British by choice, Karl Popper was one of the founding members of the Mont Pèlerin Society. Having achieved some notoriety as an epistemologist, after publishing *Logic of Research: On the Epistemology of Modern Natural Science*, in 1934, Popper wrote several essays on the topic of ‘Historicism’, which appeared in the journal *Economica* between 1944 and 1945, but would only be published as a book in 1957, with the title *The Poverty of Historicism*.⁶ During World War II, while exiled in New Zealand, he would further develop his arguments in a two volume book, *The Open Society and its Enemies*. While *The Poverty of Historicism* was a reflection on methodology, primarily aimed at the German Historical School of Economics, *The Open Society* offered a more ambitious ‘history of historicist thought’, meant to illustrate ‘its persistent and pernicious influence upon the philosophy of society and of politics, from Heraclitus and Plato to Hegel and Marx’.⁷

Popper defined ‘Historicism’ as an approach to the social sciences that aimed at ‘historical prediction’, by ‘discovering the «rhythms» or the «patterns», the «laws» or the «trends» that underlie the evolution of history.’⁸ ‘Historicism’, he claimed, had little concern for ‘history in the traditional sense of a mere chronicle of historical facts’, because it was mostly concerned with ‘the study of the operative forces and,

6 Karl Popper, *The Poverty of Historicism* (London: Rutledge & Keegan Paul, 1972 [1957]).

7 Karl Popper, *The Open Society and its Enemies. Vol. II* (London: Rutledge & Keegan, 1962).

8 Popper, *The Poverty of Historicism*, 45.

above all, of the laws of social development'.⁹ Popper attributed this to a misinterpretation of the role of theory, paired with a disregard for basic principles of scientific methodology that characterized the representatives of the German Historical School, like Gustav von Schmoller or Werner Sombart. According to him, in their attempt to emulate models and explanations from the field of Physics, these scholars had spawned 'a peculiar variety of fatalism, a fatalism in regard to the trends of history, as it were'.¹⁰ 'Historicism' was imbued with a teleological interpretation of human history, as if it was ruled by 'an unchanging law.' Against this, Popper tried to establish a clearer distinction between 'theoretical sciences' (Sociology, Economics and Political Science) and 'historical sciences':

I wish to defend the view, so often attacked as old-fashioned by historicists, that history is characterized by its interest in actual, singular, or specific events, rather than in laws or generalizations. [...] The situation is simply this: while the theoretical sciences are mainly interested in finding and testing universal laws, the historical sciences take all kinds of universal laws for granted and are mainly interested in finding and testing singular statements. [...] In the sense of this analysis, all causal explanation of a singular event can be said to be historical in so far as the 'cause' is always described by singular initial conditions.¹¹

Even though historical interpretation could not be mistaken for a scientific theory – because it could be neither falsified nor verified – it nevertheless demanded the employment of theoretical concepts, since historians who claimed to be 'objective' were bound to simply 'adopt

⁹ *Ibidem*.

¹⁰ *Ibidem*, 51.

¹¹ *Ibidem*, 143-44.

points of view without being aware of them'.¹² Rather than discovering the single source of causality behind historical events, the proper task for historians was to disentangle causal threads and to describe the accidental manner in which they were interwoven, making sense of what Popper defined as the 'logic of the situation':

We need studies, based on methodological individualism, of the social institutions through which ideas may spread and captivate individuals, of the way in which new traditions may be created, and of the way in which traditions work and break down. In other words, our individualistic and institutionalist models of such collective entities as nations, or governments, or markets, will have to be supplemented by models of political situations as well as of social movements such as scientific and industrial progress.¹³

Many of these arguments would reappear in *The Open Society and its Enemies*, where Popper deplored the intellectual influence of the 'oracular philosophy of Hegel' and the 'prophetical' claims of Karl Marx.¹⁴ Emphasizing the specific nature of historical knowledge, Popper argued that there could be no history of 'the past as it actually did happen'. Instead, the discipline depended on the historian's 'ability to elucidate the facts of history, as well as its topical interest, its ability to elucidate the problems of the day', allowing his interpretation to 'speak for itself'.¹⁵ More importantly, it was necessary to break with the notion that History was in any way charged with a meaning, that it allowed to 'discover the secret, the essence of human destiny'. Instead, the purpose of historical interpretation should remain philosophically more humble and methodologically more sound:

¹² *Ibidem*, 152.

¹³ *Ibidem*, 149.

¹⁴ Popper, *The Open Society*, 193, 198.

¹⁵ *Ibidem*, 161-68.

Although history has no ends, we can impose these ends of ours upon it; and although history has no meaning, we can give it a meaning. [...] Neither nature nor history can tell us what we ought to do. Facts, whether those of nature or those of history, cannot make the decisions for us, they cannot determine the ends we are going to choose. It is we who introduce purpose and meaning into nature and into history. [...] Facts as such have no meaning; they can gain it only through our decisions.¹⁶

Popper's chief argument was that human freedom was incompatible with a deterministic notion of temporality, regardless of how generous and well-intended. It was precisely because the course of human affairs was not pre-established, and did not follow a set of discernible rules, that individuals should be free to pursue their own purposes and make their own choices. In an 'Open society', the fate of an individual was not predetermined at the moment of his birth. And even though the first example of such a society could be tracked back as far as Ancient Athens, there was nothing ineluctable or irreversible about either its rise or downfall, because History was unpredictable by definition.

Seen through this light, Popper's epistemic incursion into the field of Historiography was part of a broader effort to keep the past open to interpretation, as a way to keep the future open for human action. It was also the result of a productive dialogue with the work of prominent representatives of the Austrian School of Economics, namely the reflections of Carl Menger on scientific methodology and his polemics with the German Historical School in the course of the '*Methodenstreit*'.¹⁷ It therefore comes as little surprise that Popper had so many views in common with Friedrich Hayek, one of the great representatives

¹⁶ *Ibidem*, 278.

¹⁷ Carl Menger, *Investigations into the Method of the Social Sciences with Special Reference to Economics* (New York: New York University Press, 1985). For the role of Carl Menger as founder of the Austrian School of Economics, see also: Bruce Caldwell, ed., *Carl Menger and his Legacy in Economics* (Durham: Duke University Press, 1990); Alan Ebenstein, *Hayek's Journey. The Mind of Friedrich Hayek* (New York: Palgrave MacMillan, 2003), 19-34.

of the Austrian School of Economics, who had established himself in England, in 1931, at the invitation of Lionel Robbins, to teach at the London School of Economics (LSE). The two men knew each other well and shared many views regarding scientific knowledge, particularly the specific epistemic problems surrounding the social sciences.¹⁸ Popper attended Hayek's seminars at the LSE during the 1930s and they frequently exchanged correspondence after he moved to New Zealand. It was Hayek, along with Ernst Gombrich, who helped Popper publish *The Open Society* and to find a teaching position at the LSE after World War II.

Hayek also took aims at the Historical School. In *The counter-revolution of science*, he deplored the 'gradual and almost unperceived transition from the historical method of the historian to the scientific historicism which attempts to make history a «science» and the only science of social phenomena.'¹⁹ He viewed this transition as an understandable reaction against excessive generalization, which had prompted scholars to emphasize the 'singular or unique character of all historical phenomena'. In the course of time, however, social scientists – 'particularly economists', as Hayek cared to stress – had come to assume that 'the empirical study of society' could provide an adequate basis for generalization, serving as 'an empirical road to the theory of their subject.' This had caused a serious misunderstanding of the role of theory within the ranks of the German Historical School. According to Hayek, rather than being the result of empirical research, theory should be used as a conceptual tool, allowing historians to formulate pertinent questions about specific subjects:

The object of scientific study is never the totality of
all the phenomena observable at a given time and place,

18 For the connection between Popper and Hayek in the 1930's, see Eugen Maria Schulak and Herbert Unterköfler, *The Austrian School of Economics. A History of Its Ideas, Ambassadors, and Institutions* (Auburn: Ludwig von Mises Institute, 2011), 123.

19 Friedrich Hayek, *The Counter-Revolution of Science* (New York: The Free Press of Glencoe, 1955), 64.

but always only certain selected aspects: and according to the question we ask, the same spatio-temporal situation may contain any number of different objects of study. [...] The application of these considerations to the phenomena of human history leads to very important consequences. It means nothing less than that a historical process or period is never a single definite object of thought but becomes such only by the question we ask about it; and that, according to the question we ask, what we are accustomed to regard as a single historical event can become any number of different objects of thought.²⁰

By establishing particular connections between different elements, enabling the historian to identify the ‘complexes of events’ that made up his object of study, the role of theory was to offer meaning to words like ‘government’ or ‘trade’ or ‘army’, which were not ‘single observable things’, but rather, each of them a ‘system of relations which connects the parts’.²¹ Like Popper, Hayek also rejected the depiction of history as a mechanical succession of ‘stages’, ‘phases’ and ‘systems’:

From Hegel and Comte, and particularly Marx, down to Sombart and Spengler, these spurious theories came to be regarded as representative results of social science; and through the belief that one kind of “system” must, as a matter of historical necessity, be superseded by a new and different “system,” they have even exercised a profound influence on social evolution. This they achieved mainly because they looked like the kind of laws which the natural sciences produced; and in an age when these sciences set the standard by which all intellectual effort was measured, the claim of these theories of history to be able to pre-

²⁰ *Ibidem*, 69-70.

²¹ *Ibidem*, 71.

dict future developments was regarded as evidence of their pre-eminently scientific character.²²

This division of history into different stages, each subordinated to its own 'laws', made 'timeless generalizations' impossible, since historians remained incapable of explaining 'how different configurations of the same elements' could produce 'altogether different complexes' according to circumstances of time and place. The formulation of generally valid assertions was, however, as necessary for the historians as for any other social scientist, since there could be 'no different theories for different ages'.²³ In this regard, the wrong predicaments of 'Historicism', had become an obstacle to the progress of scientific knowledge in the field of human and social affairs.

Hayek and Popper shared similar positions regarding the role of theory and the validity of historical interpretation, but there were also subtle differences between them. Popper was much more sceptical than Hayek regarding the possibility of using the past in order to confer particular validation to political beliefs. For his part, Hayek was more inclined than Popper to seek an underlying causal principle for historical phenomena. The main difference between them, however, lay in the relative importance they attributed to epistemic and political matters. Whereas Popper saw Liberalism as the most favourable political doctrine for the pursuit of genuine knowledge and scientific truth, Hayek was mostly concerned with the use of scientific claims as political arguments against Liberalism. Their mutual hostility towards 'historicism' brought them together at a specific point of their intellectual trajectory. It also contributed to shape some of the most important discussions during the early years of the Mont Pèlerin Society, to which we must now turn our attention.

²² *Ibidem*, 74.

²³ *Ibidem*, 78-79.

II. Industrialization and its discontents

The Road to Serfdom was probably the most successful book ever written by Hayek. Published in 1944, it was a political manifesto against the rising tide of ‘Socialism’:

How sharp a break, not only with the recent past but with the whole evolution of Western civilization, the modern trend towards socialism means, becomes clear if we consider it not merely against the background of the nineteenth century, but in a longer historical perspective. We are rapidly abandoning not the views merely of Cobden and Bright, of Adam Smith and Hume, or even of Locke and Milton, but one of the salient characteristics of Western civilization as it has grown from the foundations laid by Christianity and the Greeks and Romans. Not merely nineteenth – and eighteenth – century liberalism, but the basic individualism inherited by us from Erasmus and Montaigne, from Cicero and Tacitus, Pericles and Thucydides is progressively relinquished.²⁴

The book presented an historical interpretation of the origins of Liberalism, establishing a correlation between the growth of trade and the rise of freedom. Commercial life had, according to Hayek, allowed for ‘the gradual transformation of a rigidly organized hierarchic system’ into one where men were capable of ‘knowing and choosing between different forms of life’. Spreading from Northern Italy to France and Germany, during the late Middle Age, and from there to the Low Countries and the British Isles, in Early Modern times, commerce had achieved its ‘fullest development’ and become ‘the foundation of the social and political life’:

²⁴ Friedrich Hayek, *The Road to Serfdom* (London: Rutledge, 2007 [1944]), 13-14.

During the whole of this modern period of European history, the general direction of social development was one of freeing the individual from the ties which had bound him to the customary or prescribed ways in the pursuit of his ordinary activities. The conscious realization that the spontaneous and uncontrolled efforts of individuals were capable of producing a complex order of economic activities could come only after this development had made some progress. The subsequent elaboration of a consistent argument in favour of economic freedom was the outcome of a free growth of economic activity which had been the undesigned and unforeseen by-product of political freedom.²⁵

Liberalism had, according to Hayek, been the result of a spontaneous historical process, stemming from an evaluation, carried out by the moral philosophers of Enlightenment, of the legal and institutional framework required by a free society. Neither a dogma nor a fully developed system, it was an intellectual and political tradition based on the value of individual freedom, which could never be reduced to the 'wooden insistence of some liberals on certain rough rules of thumb, above all the principle of laissez-faire'. On the contrary, Hayek insisted, 'the crude rules in which the principles of economic policy of the nineteenth century were expressed' had been only a 'beginning'.²⁶ There was, however, an apparent paradox in this argument. Even though he attributed the triumph of Liberalism to the increasing freedom of trade, Hayek considered the crisis of Liberalism to be the result of an intellectual defeat:

For over two hundred years English ideas had been spreading eastwards. The rule of freedom which had been achieved in England seemed destined to spread throughout

²⁵ *Ibidem*, 14-15.

²⁶ *Ibidem*, 17-18.

the world. By about 1870 the reign of these ideas had probably reached its easternmost expansion. [...] For the next sixty years Germany became the centre from which the ideas destined to govern the world in the twentieth century spread east and west. Whether it was Hegel or Marx, List or Schmoller, Sombart or Mannheim, whether it was socialism in its more radical form or merely «organization» or «planning» of a less radical kind, German ideas were everywhere readily imported and German institutions imitated.²⁷

No explanation was offered as to how ‘English ideas’ could have lost ground to ‘German ideas’. Hayek simply changed the logic of causality, arguing that the ‘intellectual history of the last sixty or eighty years’ had been a ‘perfect illustration of the truth that in social evolution nothing is inevitable but thinking makes it so.’²⁸ In his view, once a sense of historical inevitability regarding the role of the state had seized the minds of most intellectuals, the belief in the superiority of the competitive market had started to falter.

This belief in the power of ideas would be developed in a later article, in which Hayek laid out his strategy to revive the influence of Liberalism as ‘an intellectual adventure’.²⁹ He vigorously argued for the need of ‘a liberal Utopia’, a program that would not appear to be ‘a mere defence of things as they’ were, but rather aim at a ‘truly liberal radicalism’, that did not ‘confine itself to what appears today as politically possible’. This demanded intellectual leaders who were prepared to resist the ‘blandishments of power and influence’, capable of confronting the ‘susceptibilities of the mighty’ and sticking to their principles in order ‘to work for an ideal’. In Hayek’s view, it was necessary to make the ‘philosophic foundations of a free society once more a living intellectual issue’, capable of challenging the ‘ingenuity and imagination of our liveliest minds’.

²⁷ *Ibidem*, 21-22.

²⁸ *Ibidem*, 50.

²⁹ Friedrich Hayek, ‘The Intellectuals and Socialism’, *University of Chicago Law Review* 16, n.º 3 (1949): 432-33.

The article illustrates the motivation behind the creation of the Mont Pèlerin Society, which gathered in Switzerland, in 1947. Attempts to form a transnational gathering of liberals had already been made, such as the creation of the Comité international d'étude pour le renouveau du libéralisme, on the wake of the Colloque Walter Lipman, in 1938. But Hayek placed particular emphasis in the role of ideas and intellectual debate when he resumed the project. The MPS brought together politicians, journalists, businessman, but it was predominantly composed by scholars, namely some of the key representatives of the Freiburg School, the Austrian School and the Chicago School of Economics. Along with a firm commitment to defend the free competitive market and individual liberty, the statement of aims of the MPS decried the growth of a 'view of history' that denied 'all absolute moral standards' and questioned the 'desirability of the rule of law', electing as one of its chief purposes the study of 'methods for combating the misuse of history for the furtherance of creeds hostile to liberty'.³⁰ From a very early moment, then, Neoliberal intellectuals chose History as a decisive battleground for the war of ideas they were about to embark upon.

That was particularly clear at the 1951 annual meeting of the society, in Beauvallon (France), where a panel brought together T. S. Ashton (United Kingdom), L. M. Macker (United States) and Bernard de Jouvenel (France), to debate the treatment of capitalism by the Historians. Their presentations would be collected in a book published in 1954, *Capitalism and the Historians*, edited by Hayek.³¹ In his Introduction, entitled 'History and politics', Hayek argued that the influence of the 'writers of history' over public opinion was 'probably more immediate and extensive than that of political theorists who launch new ideas'. There was, he claimed, 'scarcely a political ideal or concept' which did not 'involve opinions about a whole series of past events'. And even though historians had the duty to ascertain 'the facts', Hayek

30 Mirowski and Plehwe, *The Road from Mont Pèlerin*, 15-26.

31 Friedrich Hayek, ed., *Capitalism and the Historians* (London: Routledge & Keegan Paul, 1954).

insisted once again on the idea that ‘theories about the interconnection of social processes’ played a decisive role:

Historiography, as distinguished from historical research, is not only at least as much an art as a science; the writer who attempts it without being aware that his task is one of interpretation in the light of definite values also will succeed merely in deceiving himself and will become the victim of his unconscious prejudices.³²

This passage testifies to the continuity between Hayek’s previous writings on ‘Historicism’ and the political importance he attributed to historical interpretation. But there had also been a significant transformation since *The Road to Serfdom*. He now saw the emergence of the competitive market as the result of a favourable institutional setup, rather than a mere by-product of the growth of commerce:

The freedom of economic activity which in England has proved so favourable to the rapid growth of wealth was probably in the first instance an almost accidental by-product of the limitations which the revolution of the seventeenth century had placed on the powers of government; and only after its beneficial effects had come to be widely noticed did the economists later undertake to explain the connection and to argue for the removal of the remaining barriers to commercial freedom.³³

Hayek was particularly interested in the ‘Whig interpretation of history’, a designation coined by Herbert Butterfield, in 1931, for the work of British historians of the nineteenth century, like Hallam, Macaulay or Acton.³⁴ The

³² *Ibidem*, 5.

³³ *Ibidem*, 14.

³⁴ Herbert Butterfield, *The Whig Interpretation of History* (London: Bell, 1931). See also Keith Sewell, *Herbert Butterfield and the Interpretation of History* (London: Palgrave Macmillan, 2005).

historical literature produced by these historians had been centred around political struggle in England during the seventeenth century, namely the defence of common law against the attempts for political centralization carried out by either the Crown or the Parliament. This historiographical tradition had, according to Hayek, given 'the generations brought up on it a true sense of the value of the political liberty which their ancestors had achieved for them', and it was far from casual that it had 'gone out of fashion with the decline of Liberalism', allowing the rise of a 'socialist interpretation of history'.³⁵ The latter, based on a 'particular view of economic history', had originated the 'legend' according to which industrialization caused a severe deterioration of the living conditions of the working classes, something which Hayek could not accept:

The widespread emotional aversion to 'capitalism' is closely connected with this belief that the undeniable growth of wealth which the competitive order has produced was purchased at the price of depressing the standard of life of the weakest elements of society. [...] The actual history of the connection between capitalism and the rise of the proletariat is almost the opposite to that which these theories of the expropriation of the masses suggest. [...] It was only when the larger gains from the employment of machinery provided both the means and the opportunity for their investment that what in the past had been a recurring surplus of population doomed to early death was in an increasing measure given the possibility of survival.³⁶

This was, of course, the main topic of the debate on 'the standard of living' during the nineteenth century.³⁷ The fact that it caught the attention of the members of the MPS illustrates the connection between history and politics established by Hayek. The refutation of

³⁵ Hayek, *Capitalism and the Historians*, 6-7.

³⁶ *Ibidem*, 15-16.

³⁷ The 'standard of living debate' is partially covered in E. P. Thompson, *The Making of the English Working Class* (New York: Vintage Books, 1966), 189-212. See also Arthur J. Taylor, ed., *The Standard of Living in Britain in the Industrial Revolution* (London: Methuen, 1975).

a ‘black legend’ – based on misconceptions regarding the underlying causes for poverty before and during the process of industrialization – was a crucial step to defend that competition was not only a condition for economic efficiency, but also beneficial to the large majority of the population. The political legitimacy of the ‘free market’ was tied up to the evaluation of its historical record, particularly after the crisis of the 1930s had favoured the questioning of key principles of Neoclassical Economics.

The intervention of Timothy Ashton, paired with an article he had published in the *Journal of Economic History* (‘The standard of life of the workers in England, 1790-1830’), was meant to refute the dominant historical interpretation of the industrial take-off in Great Britain. An economic Historian and professor at the LSE, Ashton charged the reports written, during the early nineteenth century, by social reformers appalled by the living conditions of the poor (the ‘Blue books’), for having led to a number of historical misconceptions. Focusing on the housing problems in the industrial districts of Lancashire and Yorkshire, he argued that this had been caused by wrong fiscal policy and government intervention in the credit system (namely the ceilings imposed on interest rates, which had caused a shortage of funding for new buildings), aggravated by the disruption of international trade during the Napoleonic wars, which had raised the prices of building materials and wages. Rather than attributing poverty to private businessmen, it was necessary to look for more sensible causes. ‘No historian’, Ashton concluded, had ‘looked the problem through the eyes of those who had the task of building and maintaining the towns’. In spite of the numerous problems arising from industrialization, he argued, English workers as a whole were far more prosperous than their counterparts in any other country of the world at the time. Therefore, even though industrialization had had some negative social effects, Ashton insisted on the need for a careful handling of data, particularly in regards to comparisons between what was the prevalent situation before and after the industrial take-off. After challenging the dominant interpretation of what had happened in England in the turn of the eighteenth to the

nineteenth century – namely the works of Fabians like Arnold Toynbee, Sidney and Beatrice Webb or John and Barbara Hammond – Ashton went on to criticize the German Historical School from a methodological viewpoint:

A thousand years is an unmanageably long period, and so capitalism had to be presented as a series of stages – the epochs, respectively, of early, full, and late capitalism, or of mercantile capitalism, industrial capitalism, finance capitalism, and state capitalism. It is admitted, of course, by those who make use of these categories, that there is overlapping: that the late stage of one epoch is the early (or, as they say, the emergent) stage of the next. But to teach economic history in this way – to suggest that commerce, industry, finance, and state control are *successive* dominant forces – is to hide from the student, I suggest, the interaction and interdependence of all these at every period of time. It is bad economics. Those who write so tend to torture the facts.³⁸

Disparaging towards the ‘illogical and illiberal tendencies’ of most of his colleagues, Ashton denounced the careless use of expressions such as ‘capitalist spirit’, which presupposed an ‘impersonal, superhuman force’, by which it was ‘no longer men and women, exercising their free choice, who effect change, but capitalism, or the spirit of capitalism.’ The result, he added, was that history was being written ‘as though its function were simply to exhibit the gradualness of inevitability.’³⁹ In order to counter this pattern of interpretation, he argued for the need to reconcile economic theory with economic history, looking at the past through the lenses of Neoclassical Economics.

This is a clear illustration of the reciprocal influences of Neoliberal intellectuals upon one another, allowing us to identify some of the

³⁸ Hayek, *Capitalism and the Historians*, 58-59.

³⁹ *Ibidem*, 62.

common epistemic concerns that cross-fertilized their work. The refutation of the ‘Socialist interpretation of History’ was inseparable from the critique of ‘Historicism’, just as the refusal of teleological narratives of History called for methodological debates on the epistemic problems faced by the discipline. Far from being a predominantly economic theory of human behaviour, Neoliberalism was, during this early phase of the Mont Pèlerin Society, an intellectual project with numerous and articulated aims. But Popper, Hayek and Ashton were not alone, nor were they the first to look into the problems of historical interpretation.

Indeed, there is a missing link that usually goes unnoticed in most accounts of the history of the Mont Pèlerin Society. In 1951, under the advice of Hayek, the University of Chicago Press published a book written by Walter Eucken (the leading member of the Freiburg School and also a founding member of the MPS). First published in Germany in 1940, *The Foundations of Economics* was an attempt to bridge the gulf between economic history and economic theory.⁴⁰ Calling upon the ‘analytical apparatus of economics’ to be ‘extended’, Eucken stressed the interrelation between everyday economic life and the broader historical situation, arguing that one could not be understood without the other. He was careful to underline the difference between history and theory: whereas the former relied primarily on ‘perception, intuition, synthesis, understanding, and a feeling for living individual experience’, the latter resorted to ‘reasoning, analysis, and the elaboration of analytical models’. It was nevertheless necessary to make full use of both, since ‘the actual sequence of economic events at any place or time’ could not be understood ‘in the same way as other historical facts’, making it necessary to formulate ‘theoretical propositions’ in order to understand the ‘concrete relationships’ between each specific configuration of events, be it the rise of the price of cotton or the depreciation of the dollar.⁴¹ ‘Knowledge of economic reality or of the real world’, Eucken concluded, could only come as ‘an answer to a question’.⁴²

40 Walter Eucken, *The Foundations of Economics. History and Theory in the Analysis of Economic Reality* (Berlin: Springer Verlag, 1992), 10.

41 *Ibidem*, 39-43

42 *Ibidem*, 60.

Addressing the relation between classical political economy and history, Eucken argued that the moral philosophers of Enlightenment, from Montesquieu to Adam Smith, had sought to ‘arrive at generally valid and applicable knowledge’, in the form of universal principles. Because of that, they had failed to contemplate ‘the variety of institutions’ at play within the economic system, along with ‘the full range of economic reality and its historical development’.⁴³ This, in turn, contributed to make the field of Economics ‘doctrinaire’ in the course of time. Eucken particularly deplored the fact that the ‘stimulus of concrete problems and the force of historical facts’ was no longer ‘sensed by many theoretical economists’, who resorted to ‘increasingly mathematical formulation of economic theory’, remaining ‘incapable of explaining the problems of the real world’.⁴⁴

Like Popper and Hayek, Eucken criticized the notion that each epoch or ‘stage’ of economic development demanded a particular type of theory to interpret it.⁴⁵ He agreed with Hayek regarding the spontaneous character of economic transformations, but considered the modern economic system to be one of the few exceptions to this rule, arguing that it had been deliberately ‘created’ rather than ‘grown’:

Out of the understanding of the interdependence of the whole of everyday economic life, and from the discovery that competition is a highly effective regulating mechanism, the classical economists developed their governing principles, and proposed great reforms in order to realize these principles in practice. [...] In this case an economic system was to be built on the basis of an economic ‘constitution’. By an ‘economic constitution’ we mean the decision as to the general ordering of the economic life of a community.⁴⁶

⁴³ *Ibidem*, 48-50.

⁴⁴ *Ibidem*, 59.

⁴⁵ *Ibidem*, 75.

⁴⁶ *Ibidem*, 83.

The concept of ‘economic constitution’ would become a central tenet of Ordoliberalism. It was exemplified by the British monetary system and the gold standard, legally implemented by political institutions according to ‘governing principles, precisely thought out in theory’.⁴⁷ Emphasizing the importance of the ‘Order’ that regulated the interaction between economic agents, Eucken concluded that the relation between the legal system and the economic system had ‘to be studied in the individual context of each historical situation’, since it was subject to change in the course of time and did not follow any sort of predetermined rule.⁴⁸ This conclusion was filled with relevant implications, namely the particular importance the Freiburg School attributed to legal and political institutions, which was the result of a particular interpretation of the historical origins of the modern economic system. This interpretation followed a strong theoretical imprint – drawing inspiration from Neoclassical economics – but did not satisfy itself with reasserting axiomatic and timeless assertions.⁴⁹ By insisting in adding the prefix ‘Neo’ to ‘Liberalism’ – both in the Colloque Walter Lipman and immediately after the foundation of the MPS – members of the Freiburg School remained faithful to this theoretical break.

Eucken’s insistence on the importance of theory for the study of History, along with the notion that economics could not be understood without the study of laws and institutions, had a considerable influence over Hayek, who received a first-hand copy of his book through Wilhelm Röpke.⁵⁰ Indeed, the relation between the Austrian School of Economics and the German Ricardian group (the forbearer of the Freiburg School) dated back to the 1920s and it was characterized by permanent interchange.⁵¹ Eucken and Hayek kept a steady correspondence, which

⁴⁷ *Ibidem*, 84.

⁴⁸ *Ibidem*, 87.

⁴⁹ Eucken and Hans Grossmann-Doerth, a Professor of Law at the University of Freiburg, held a joint seminar of jurists and economist between 1933 and 1936, when it was forcefully shut down. E. M. Streit, ‘The Freiburg School of Law and Economics’, in *The Elgar companion to Austrian Economics*, ed. Peter Boettke (Cheltenham: Edgar Elgar, 1994), 508-09.

⁵⁰ Viktor J. Vanberg, ‘Hayek in Freiburg’ in *Hayek: A Collaborative Biography*, ed. Robert Leeson (London: Palgrave Macmillan, 2013), 94.

⁵¹ Nils Goldschmidt and Jan-Otmar Hesse, ‘Eucken, Hayek and The Road to Serfdom’, in

included several critical comments by the former on *The Road to Serfdom*. The fact that Hayek latter taught at Freiburg, where he spared no compliments regarding Eucken's importance for his own intellectual formation, testifies to the impact of the *Foundations of Economics*. One needs only to remember the introduction to *Capitalism and the Historians* to understand that Hayek was more than merely asserting the principles of the Austrian School of Economics.

Not everyone was equally enthusiastic about this ecumenical atmosphere of intellectual debate. Ludwig von Mises, who had enjoyed considerable influence over Hayek in his youth, helping him throughout the early years of his professional career, disagreed with many of the positions shared by Ordoliberals regarding the role of the state and the functioning of the competitive market. In his view, the state should limit itself to the enforcement of legal contracts and the management of foreign affairs. In a book published in 1946, *Human Action*, Mises formulated his own theory of Economics, 'praxeology', which he equated with Logic and Mathematics. Drawing on Kant's notion of '*a priori*', praxeology followed the assumption that individuals pursued deliberate aims motivated solely by their desires. It elected as the chief purpose of science to take 'the value judgments of acting man as ultimate data not open to any further critical examination', accepting as its only standard 'whether or not the means chosen are fit for the attainment of the ends aimed at'.⁵² Accordingly, Mises divided the 'sciences of human action' into two main branches, praxeology and history. He argued that history could 'neither prove nor disprove any general statement in the manner in which the natural sciences accept or reject a hypothesis on the ground of laboratory experiments', since it was not 'an intellectual reproduction, but a condensed representation of the past in conceptual terms'.⁵³ 'Praxeology', on the other hand, was able to measure the success of each action according to the effects it was meant to achieve.

Hayek: A Collaborative Biography, ed. Robert Leeson (London: Palgrave Macmillan, 2013), 123-46.

⁵² Ludwig von Mises, *Human action. A Treatise on Economics* (Auburn: The Ludwig von Mises Institute, 1998), 21.

⁵³ *Ibidem*, 31, 48.

It is revealing that, even though *Human action* made several reflections on historiography, Mises felt the need to publish an additional book on the subject, *Theory and History*, in 1957.⁵⁴ After repeating many of the arguments he had previously laid out, Mises addressed the ‘epistemological problems of History’ in the third part of the book. Unsurprisingly, he singled out ideas as ‘the ultimate given of historical inquiry’, since they engendered ‘social institutions, political changes, technological methods of production, and all that is called economic conditions’.⁵⁵ He argued against the ‘deterministic’ view of History (namely that of Marx), echoing the arguments laid out by Menger, Popper and Hayek against Historicism. More importantly, Mises coined up the term ‘thymology’ as a counterpart to praxeology: while the latter dealt with ‘action as such’, the former was meant to designate ‘the knowledge of human valuations and volitions’, that is, the ‘knowledge of the social environment in which a man lives and acts’.⁵⁶ Mises had no doubt that studying history was of ‘the utmost practical importance’ and belonged to the ‘very essence’ of a liberal education, because even though it looked ‘backward into the past’, it taught lessons on the ‘things to come’.⁵⁷ But he nevertheless kept the distinction between History and Economics – or rather, between ‘praxeology’ and ‘thymology’ – as a fundamental epistemic position. Other than the vague notion that ideas were the most important subject for historical interpretation and that agency should be ascribed solely to individuals, he said very little about the origins of the competitive market. In that regard, he was quite distant from the intellectual efforts that were being undertaken by other members of the MPS, and felt little need to engage in the discussion of how or why Liberalism had fallen into crisis. More than anything, *Theory and History* resembled a last ditch defense of a doctrine that needed no additional insights, because it had achieved the capacity to explain all that was relevant about human action. For

⁵⁴ Ludwig von Mises, *Theory and History. An Interpretation of Social and Economic Transformation* (Yale: Yale University Press, 1957).

⁵⁵ *Ibidem*, 187-88.

⁵⁶ *Ibidem*, *Theory and History*, 265.

⁵⁷ *Ibidem*, *Theory and History*, 291, 293-94.

Mises, more than for most, the prefix ‘Neo’ had never made sense from the start.

As Neoliberalism began to mature, through debate and common reflection carried out by intellectuals from different schools of thought, some of the dividing lines between them tended to fade. But new ones also started to emerge, however subtle, setting apart individuals who nominally belonged to the same school. Even though Hayek and Mises did not express their differences openly, it is hard not to find them if we read in between the lines of what they wrote. This, too, reveals the importance of the subject of historical interpretation for a better understanding of Neoliberalism. As we shall see, other, and more relevant, differences would emerge in the course of time, as distinct interpretations of the past materialized in different propositions concerning the best way to reaffirm Liberalism in the second half of the twentieth century.

III. The Neoliberal interpretation of History

The Constitution of Liberty, Hayek’s *magnum opus*, was published in 1960. It was a comprehensive argument in favour of individual freedom, the competitive market and the rule of law. It is not always noted, however, how ambitious it was in the domain of historical interpretation. Right from the start, Hayek set about distinguishing between two traditions of Liberalism:

The development of a theory of liberty took place mainly in the Eighteenth century. It began in two countries, England and France. The first of these knew liberty; the second did not. As a result we have to the present day two different traditions in the theory of liberty: one empirical and unsystematic, the other speculative and rationalistic – the first based on an interpretation of traditions and institutions which had spontaneously grown up and were but imperfectly understood, the second aiming at the con-

struction of a utopia, which has often been tried but never successfully.

These two traditions had parted ways. ‘Rationalistic’ Liberalism was the ancestor of ‘Socialism’, while the empiricist tradition was the legacy claimed by Hayek. This was a novelty, illustrating the character of the Mont Pèlerin Society as a laboratory of theoretical innovation. It also provides additional clues concerning the meaning of the prefix ‘Neo’ in ‘Neoliberalism’. The superiority of the unsystematic tradition of Liberalism, Hayek argued, resulted from a better understanding of the process of trial and error by which suitable institutions and values had been discovered:

While the rationalist tradition assumes that man was originally endowed with both the intellectual and the moral attributes that enabled him to fashion civilization deliberately, the evolutionist made it clear that civilization was the accumulated hard-earned result of trial and error; that it was the sum of experience, in part handed from generation to generation as explicit knowledge, but to a larger extent embodied in tools and institutions which had proved themselves superior – institutions whose significance we might discover by analysis but which will also serve men’s ends without men’s understanding them.⁵⁸

Hayek presented a developed account of the origins of the rule of law and political freedom, his own version the ‘Whig interpretation of history’.⁵⁹ According to him, the concepts of individual liberty and rule of law had first appeared in Ancient Athens, through the notion of ‘*isonomia*’, before being perfected during the Roman Republic, by

⁵⁸ Friedrich Hayek, *The Constitution of Liberty* (London: Routledge, 2006 [1960]), 54.

⁵⁹ This section was based on a previous work, entitled *The Political Ideal of the Rule of Law*, assigned to Hayek by the National Bank of Egypt and published in 1955.

classical authors like Cicero, Tacitus or Livy. This intellectual tradition would later become a major source of inspiration for those who rallied against political centralization in England during the seventeenth century. Modern conceptions of the rule of law had therefore been a ‘by-product of a struggle for power’, in the course of a ‘dispute about the authority to legislate’, rather than resulting from a ‘deliberate aim’. The rule of law would gain further consistency through the ‘constitutionalist’ doctrines of ‘checks and balances’ developed during the American Revolution, before making its way into Continental Europe, through the Civil Codes enacted in Prussia, Austria and Napoleonic France. Such institutional developments had, in turn, allowed the functioning of a competitive market order, erecting a barrier against discretionary measures undertaken by legislative or executive powers.

Hayek’s theory of Power and Law – which conceived ‘Freedom’ in strictly negative terms, as ‘freedom from coercion’ – was based on the claim that institutional innovations had been an accidental result of powerful invisible forces. According to him, the functioning of a free society relied predominantly on established traditions, born from the accumulated experience of many generations. The history that Hayek – and other members of the MPS – wanted to tell was meant to serve as a warning against those who wished to change social relations according to a deliberate rational design. It was the history of the spontaneous origins of the market order, emerging as an unforeseen result of the struggle against political centralization. And, since any attempt to radically transform society would most likely disturb the entire social fabric, each one should content oneself with the actual freedom offered by the competitive market and the rule of law. Drawing on the insights of Edmund Burke, the Neoliberal interpretation of History elaborated by Hayek established the limits within which individuals were allowed to choose, resembling the sort of fatalism which both him and Popper had previously criticized in ‘Historicism’. Liberalism was no longer equated with a ‘Utopia’ that challenged the ‘ingenuity and imagination’ of the ‘liveliest minds’. It had become a rallying point for all those who feared radical transformation of the social order.

Around the same time Hayek was condensing his views on the future of Liberalism, a rather more crude approach to history was being developed by another founding member of the MPS. Milton Friedman, a professor at the Chicago School of Law and Economics, wrote *Capitalism and Freedom* as an American version of Hayek's *The Road to Serfdom*.⁶⁰ Published only two years after *The Constitution of Liberty*, Friedman's book presented a set of easily understandable arguments in defence of the competitive market, venturing with great ease in the domain of historical interpretation:

Historical evidence speaks with a single voice on the relation between political freedom and a free market. I know of no example in time or place of a society that has been marked by a large measure of political freedom, and that has not also used something comparable to a free market to organize the bulk of economic activity. Because we live in a largely free society, we tend to forget how limited is the span of time and the part of the globe for which there has ever been anything like political freedom: the typical state of mankind is tyranny, servitude, and misery. The nineteenth century and early twentieth century in the Western world stand out as striking exceptions to the general trend of historical development. Political freedom in this instance clearly came along with the free market and the development of capitalist institutions. So also did political freedom in the golden age of Greece and in the early days of the Roman era.⁶¹

60 For the connection between the two books, see: Rob Van Horn and Philip Mirowski, 'The rise of the Chicago School of Economics and the Birth of Neoliberalism', in *The Road from Mont Pèlerin*, ed. Dieter Plehwe and Philippe Mirowski (Havard: Harvard University Press, 2009), 131-68.

61 Milton Friedman, *Capitalism and Freedom* (Chicago: University of Chicago Press, 1982 [1962]): 16.

In spite of the similarity to Hayek's main line of argument – indeed, Friedman went as far as claiming that *The Constitution of Liberty* revealed the influence of the Chicago School over its author⁶² – there were some important differences to be noted. Friedman's book was mostly a simplified version of Neoclassical economic theory, punctuated by scattered references to the importance of the rule of law, whereas Hayek had consistently drawn on History and Philosophy to develop his arguments in favour of Liberalism.

Additionally, the two men had quite different understandings of science. In a book published in 1953, Friedman aligned his epistemic position with that of Keynes (not John Maynard, but his father, John Neville), arguing that any 'policy conclusion necessarily rests on a prediction about the consequences of doing one thing rather than another'.⁶³ He defined 'positive economics' as a science 'in precisely the same sense as any of the physical sciences', the performance of which had to be judged by 'the precision, scope, and conformity with experience of the predictions it yields'.⁶⁴ Unlike Hayek, Friedman believed that economists should be able to predict the future, making no distinction between the 'simple phenomena' studied by the natural sciences and the 'complex phenomena' dealt with by social scientists. This divergence had far greater implications than those we have previously identified, either between Popper and Hayek, or between Hayek and Mises. It reflected Friedman's preference for an objectivist view of Neoclassical economics, from which the members of the Austrian School had distanced themselves. It also meant that historical interpretation could be used to illustrate the validity of timeless, axiomatic, truths.

That was to become evident in *Capitalism and Freedom*, which was published in 1962, having been written by Friedman as an American counterpart to Hayek's *The Road to Serfdom*. Whereas industrialization had been the main topic of *Capitalism and the Historians*,

⁶² Ebenstein, *Hayek*, 141.

⁶³ Milton Friedman, *Essays in Positive Economics* (Chicago: The University of Chicago Press, 1953), 4

⁶⁴ *Ibidem*, 7.

Friedman elected the ‘Great Depression’ of 1929-1933 as the historical event that had contributed the most to undermine the confidence in the superiority of the competitive market, by reinforcing the belief that a ‘private free-enterprise economy’ was ‘inherently unstable’ if left to itself.⁶⁵ As the argument went, what had come to legitimize the growth of government intervention and the entire political economy of the New Deal was an outright error of historical interpretation. Far from being a sign of the inherent instability of the ‘private enterprise system’, the Great depression had, according to Friedman, been the result of wrong monetary measures undertaken by the Federal Reserve, which had converted ‘what otherwise would have been a moderate contraction into a major catastrophe’.⁶⁶ He considered it to be necessary to invert the trend, pursuing a ‘government of law instead of men’ and creating strict rules in order to prevent ‘monetary policy from being subject to the day-by-day whim of political authorities’.⁶⁷ In this particular brand of Neoliberal interpretation of history, conclusions stemmed almost automatically from what were taken to be historical ‘facts’.

The argument presented in *Capitalism and Freedom* would be developed in a more systematic way in *A Monetary History of the United States*, a book written by Milton Friedman and Anne Schwartz, under the sponsorship of the National Bureau of Economic Research. A vast amount of statistical data, covering a century of economic history, from the end of the American Civil War until the Kennedy administration, was compiled with the chief purpose of demonstrating that monetary policy had a greater impact on business cycles than economic theory had hitherto recognized. In order to explain the economic role of money, Friedman and Schwartz used History as testing ground for their hypothesis. The rationale for this exercise is to be found in a passage of Friedman’s essay on positive economics:

⁶⁵ Friedman, *Capitalism and Freedom*, 39.

⁶⁶ *Ibidem*, 44-48.

⁶⁷ *Ibidem*, 49

Unfortunately, we can seldom test particular predictions in the social sciences by experiments explicitly designed to eliminate what are judged to be the most important disturbing influences. Generally, we must rely on evidence cast up by the “experiments” that happen to occur. [...] Occasionally, experience casts up evidence that is about as direct, dramatic, and convincing as any that could be provided by controlled experiments. Perhaps the most obviously important example is the evidence from inflations on the hypothesis that a substantial increase in the quantity of money within a relatively short period is accompanied by a substantial increase in prices.⁶⁸

The evolution of the money stock during an entire century was one of the closest things to a ‘controlled experiment’ that an economist could hope for, since it allowed the observation of monetary experience under sufficiently disparate conditions to sort out what was ‘common’ from what was ‘adventitious’.⁶⁹ Under these premises, Friedman and Schwartz set about dissecting the economic history of the United State, making a precise incision into it, as if monetary circuits were the circulatory system of a living creature. They considered the creation of the Federal Reserve System, in 1914, to be ‘a major watershed in American monetary history’.⁷⁰ Before that, there had been a ‘blind, undesigned, and quasi-automatic’ monetary regime (the Gold Standard), capable of ensuring ‘a greater measure of predictability and regularity’ than the ‘deliberate and conscious control’ exercised by the ‘System’. The disadvantages of the latter had become manifest in the course of time. Friedman and Schwartz concluded that the drastic decline in the stock of money after 1929, paired with the occurrence of a banking panic of unprecedented severity, had occurred because the Federal Reserve

68 Friedman, *Essays in Positive Economics*, 10-11.

69 Milton Friedman and Anne Schwartz, *A Monetary History of the United States 1867-1960* (Princeton: Princeton University Press, 1963), 676, 687-88.

70 *Ibidem*, 8.

System did not use its ‘ample powers’ to cut short the ‘tragic process of monetary deflation and banking collapse’.⁷¹ This, in turn, revealed a specific type of correlation between monetary policy and economic activity:

Changes in the money stock are therefore a consequence as well as an independent source of change in money income and prices, though, once they occur, they produce in their turn still further effects on income and prices. Mutual interaction, but with money rather clearly the senior partner in longer-run movements and in major cyclical movements, and more nearly an equal partner with money income and prices in shorter-run and milder movements – this is the generalization suggested by our evidence.⁷²

Although this sort of generalization was well below the standards of the ‘natural sciences’, it offered monetary authorities what appeared to be a coherent theoretical explanation for the problems they were up against. The core of the book explained how to handle an economic depression caused by deflation and shortage of liquidity. But its conclusion, dug out from the vast amount of data collected from the archives of the Federal Reserve System, was equally useful to tackle down inflation.⁷³ More importantly, the whole book questioned the Keynesian argument for imperative management by the government, since it attributed the crisis to the monetary authorities, rather than the behaviour of investors.⁷⁴

From a conceptual standpoint, Friedman’s approach had much in common with what the Austrian School had criticized about ‘Histori-

⁷¹ *Ibidem*, 11.

⁷² *Ibidem*, 695.

⁷³ *Ibidem*, 676.

⁷⁴ This point is particularly highlighted in Lanny Ebenstein, *Milton Friedman. A Biography* (Basingstoke: Palgrave MacMillan, 2007), 113-28.

cism'. It elected 'prevision' as its main aim, showing little consideration for epistemic concerns that could hamper the discipline's capacity to influence policy-makers. It established very simple mechanisms of causality, in order to support the claim that monetary authorities were less capable of ensuring price stability than an impersonal mechanism geared to the market. It handled its data in a very straightforward direction, so as to draw the theoretical conclusion that fiscal policy and government spending were unable to achieve full employment in the long run.

The strength of this argument would only become manifest a few years later, when public opinion (or at least a determinant part of it) grew tired of rising prices. Friedman himself had little doubt about the mechanisms of causality that presided over historical transformation:

The change in the climate of opinion was not produced by this book or the many others, such as Hayek's *Road to Serfdom* and *Constitution of Liberty*, in the same philosophical tradition. [...] The change in the climate of opinion was produced by experience, not by theory or philosophy. [...] Only a crisis actual or perceived produces real change. When that crisis occurs, the actions that are taken depend on the ideas that are lying around. That, I believe, is our basic function: to develop alternatives to existing policies, to keep them alive and available until the politically impossible becomes politically inevitable.⁷⁵

According to this view, History was a testing ground for economic theory, allowing the refutation of a dominant scientific hypothesis and its replacement by another. Intellectuals merely predicted what the force of events would come to demonstrate. And, in the process, they laid out the ideas that were necessary to create an alternative.

⁷⁵ Friedman, *Capitalism and Freedom*, 6-7.

Of course, this sort of simplification was precisely what the Mont Pèlerin Society had initially rallied against. But that did not prevent Friedman, along with other representatives of the Chicago School of Economics (many of whom also belonged to the MPS), from casting aside most of the epistemic concerns that characterized the writings of Popper, Hayek, Acton, Eucken or Mises. The interpretation of History that underpinned their work assumed that ‘facts’ had a definite meaning, because they were subject to what, for all purposes, resembled ‘laws’. Quite simply, such ‘laws’ – drawn from the timeless truths of Neoclassical economics and expanded through highly abstract mathematical models – did not point to a growing intervention of the State in economic affairs, but rather in the opposite direction. History had changed its course.

Conclusion

Reading Neoliberalism from the angle of Intellectual History allows us to understand the initial scope of its epistemic and political ambitions. As early as the 1940s, Karl Popper and Friedrich Hayek had questioned the notion that social sciences should emulate the paradigm of Physics, calling for a more sophisticated understanding of the role of theory, along with a more rigorous assessment of causality. Likewise, they considered the idea that history unfolded through a predictable succession of stages, according to ‘Historical Laws’, to be a crude simplification and a denial of human freedom. The importance they attributed to historical interpretation concerned both the political legitimacy of the competitive market order and the possibility of understanding the evolution of society in the course of time.

These insights were reflected in the Mont Pèlerin Society’s statement of aims, which directly identified the interpretation of History as a matter of concern for all of those engaged in the renewal of Liberalism. The importance that the members of the Society attributed to the role of ideas led them to engage in a systematic attempt to challenge the supremacy of ‘Socialists’ over historical interpretation. This was

one of the chief motivations behind the works of Walter Eucken and Ludwig von Mises, during and immediately after World War II, each following his own specific ideas. The topic would deserve further attention at the Society's annual meeting in 1951, from which the book *Capitalism and the Historians* resulted. At that stage, Neoliberal intellectuals were particularly concerned with the interpretation of industrialization in Great Britain, namely the fact that historians frequently reached conclusions that undermined the legitimacy of the competitive market. While Timothy Ashton engaged himself in the historiographical debate on the standard of living of the working class during the nineteenth century, Hayek used the 'Whig interpretation of History', a nineteenth-century British historiographical tradition, as a source of inspiration for his own historical narrative of the spontaneous origins of the competitive market order.

A much more successful Neoliberal interpretation of History would, however, be developed by Milton Friedman at a later moment. According to his methodological principles, there were no reasons to distinguish between the natural and the social sciences, since both should aspire to formulate generally valid conclusions about the phenomena they studied, allowing for prediction. Friedman wrote *A Monetary History of the United States*, along with Anne Schwartz, in order to validate his own scientific theory of money. Specific features of Historicism were thus revived within the ranks of Neoliberalism, as it started to display a more 'technical' profile. In the course of time, a set of claims concerning the functioning of governments, markets, money, society and human behaviour emerged as a unified doctrine, usually presented as 'sound economics'. That was, as we have seen, a major break with the commitment of early MPS members to elaborate a consistent body of ideas in support of individualism and the free market.

We can therefore conclude that the differences that existed within the MPS became increasingly more evident as Neoliberalism developed and matured. In this regard, the connection between different ways of conceiving economics and different ways of imagining the past proved to be an important one. Those with an Austrian (or Ordoliberal) intellectual

background regarded history as a complex phenomenon, a set of undetermined events with multiple sources of causality, that could not be entirely measured and had to be approached tentatively. Those associated with the Chicago School were more prone to use history as a testing ground, establishing correlations between a few simple variables and using mathematical induction in order to prove or disprove their hypothesis. The reasons why the intellectual tradition developed in Chicago would become more successful in the field of Economics are beyond the scope of this article. But the contrast between the cautious approach put forth in *Capitalism and the Historians* and the confident tone of Friedman's writings on change and causality is a good lead for further investigation into the subject.

In spite of methodological and theoretical differences, all of the intellectuals who gathered in the Mont Pèlerin Society (with perhaps the exception of Popper) identified the market as an insurmountable institution, which no rational design could successfully replace. This did not, however, mean that they all looked onto the past, and specifically to the Classical Liberal tradition which they all claimed as a common source of inspiration, in the same way. In this regard, the prefix 'Neo' signalled a particular understanding of history, according to which Liberalism was conceived both as the final stage of human existence and as a set of ideas that needed to be renewed in order to keep up with the course of time. For Neoliberal intellectuals, the inheritance of Liberalism had not been preceded by any testament.

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